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CIAC, Payroll Expense  
Witness: Graham A. Vesely  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: WR-2006-0425  
Date Testimony Prepared: December 4, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**  
**OF**

**GRAHAM A. VESELY**

**FILED<sup>2</sup>**

FEB 08 2007

Missouri Public  
Service Commission

**ALGONQUIN WATER RESOURCES OF MISSOURI, LLC**

**CASE NO. WR-2006-0425**

Jefferson City, Missouri  
December 2006

**\*\*Denotes Highly Confidential Information\*\***

**NP**

Staff Exhibit No. 8  
Case No(s) WR-2006-0425  
Date 1-22-07 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

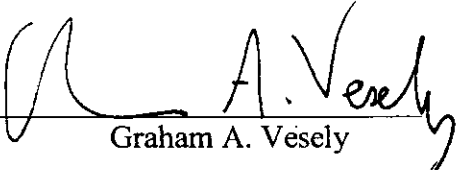
In the Matter of the Tariff Filing Algonquin Water )  
Resources of Missouri, LLC to Implement a )  
General Rate Increase for Water and Sewer Service )  
Provided to Customers in Its Missouri Service )  
Areas. )

Case No. WR-2006-0425

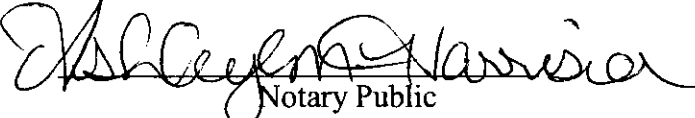
**AFFIDAVIT OF GRAHAM A. VESELY**

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Graham A. Vesely, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 41 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Graham A. Vesely

Subscribed and sworn to before me this 4th day of December 2006

  
\_\_\_\_\_  
Notary Public



ASHLEY M. HARRISON  
My Commission Expires  
August 31, 2010  
Cole County  
Commission #06998978

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1 **DIRECT TESTIMONY**  
2 **OF**  
3 **GRAHAM A. VESELY**  
4 **ALGONQUIN WATER RESOURCES OF MISSOURI, LLC**  
5 **CASES NOS. WR-2006-0425 and SR-2006-0426**  
6 **(Consolidated)**

7 Q. Please state your name and business address.

8 A. Graham A. Vesely, 615 East 13th Street, Kansas City, MO 64106.

9 Q. By whom are you employed and in what capacity?

10 A. I am a Regulatory Auditor for the Missouri Public Service Commission  
11 (Commission).

12 Q. Please describe your education background.

13 A. In May of 1985, I received a Bachelor's degree in Civil Engineering from  
14 Saint Martins College, Olympia, Washington. In May of 1998, I completed an MBA degree  
15 with a focus in Accounting from Central Missouri State University, Warrensburg, Missouri. I  
16 am a Certified Public Accountant with a permit to practice in Missouri.

17 Q. Please describe your employment history.

18 A. In May of 1985, I was employed as a Facilities Maintenance Engineer by the  
19 United States Air Force. From March 1988 until May 1995, I was employed by the Army  
20 Corps of Engineers as a member of a construction management group. Subsequently, I began  
21 working with the engineering firm of Malsy & Associates, Lincoln, Missouri, as a Civil  
22 Engineer. On February 26, 1999, I began my current employment with the Commission.

23 Q. What is the nature of your duties while employed by this Commission?

1           A.     I am responsible for assisting in the audits and examinations of the books and  
2 records of utility companies operating within the state of Missouri.

3           Q.     With reference to Case Nos. WR-2006-0425 and SR-2006-0426, have you  
4 made an investigation of the books and records of Algonquin Water Resources (Algonquin)  
5 relating to the proposed rate increase?

6           A.     Yes, with the assistance of other members of the Commission Staff (Staff).

7           Q.     Have the water and sewer cases been combined?

8           A.     Yes, these two cases have been consolidated by the Commission's Order  
9 Consolidating Cases issued May 23, 2006, with Case No. SR-2006-04256 being consolidated  
10 for all purposes into Case No. WR-2006-0425.

11          Q.     Have you previously filed testimony before the Commission?

12          A.     Yes. Schedule I attached to this direct testimony identifies the cases in which  
13 I have participated.

14          Q.     What is the purpose of your direct testimony?

15          A.     I will address the areas of plant in service, depreciation reserve, and  
16 contributions in aid of construction (CIAC) which comprise rate base. I will also address  
17 payroll expense and payroll-related benefits, depreciation expenses in the income statement.

18          Q.     Are you sponsoring any adjustments?

19          A.     Yes, I am sponsoring numerous adjustments in plant and reserve and others as  
20 indicated in Staff's EMS runs filed with my testimony.

21          Q.     What knowledge, skills, experience, training, or education do you have in these  
22 subjects?

1           A.     I have acquired knowledge of these topics through a combination of my  
2 previous employment experience and in cases before this Commission. I have reviewed the  
3 testimony, work papers, and orders from the previous Silverleaf Resorts, Inc. cases. I have  
4 reviewed the Company's testimony, work papers, and data request responses received in this  
5 case related to the above topics.

6           Q.     Have you been involved in other Algonquin cases in the past?

7           A.     Yes, I was involved in the transfer of assets case from Silverleaf to Algonquin,  
8 Case No. WO-2005-0206 (Consolidated). I also previously took part in the small company  
9 rate increase request submitted in 2000 and subsequently withdrawn by Silverleaf, as well as  
10 in Cases Nos. WC-2002-1040 and SC-2002-1039 that were initiated by the Staff as  
11 investigations of Silverleaf's earnings. In all instances, I performed audits of Silverleaf's  
12 utility books and records and assisted in developing the Staff Recommendation  
13 Memorandum. Specifically, I examined Silverleaf's investment in utility plant and  
14 determined that there are significant amounts of CIAC plant. I also reviewed the Well No. 2  
15 project at Holiday Hills Resort and became aware of construction delays leading to cost  
16 overruns. I also became aware of excess water and sewer system capacity for serving existing  
17 customers on Silverleaf's, and now Algonquin's, system.

18          Q.     What test year did Staff use in this case?

19          A.     The test year in this case is the twelve months ending September 30, 2005,  
20 updated for known and measurable changes through September 30, 2006. Staff used this test  
21 year in the determination of all the revenue requirement calculations that are being presented  
22 to the Commission in Case No. WR-2006-0425. Some of the major revenue requirement  
23 components which are examined that typically change from test year levels are utility plant-

1 in-service, accumulated depreciation, capital structure and cost of capital, customer growth  
2 revenues, payroll, and depreciation expense. Updates rely on changes that are known and  
3 measurable, which occur within a reasonable time after the close of the test year.

4 Q. What is the purpose of the test year and how is it used?

5 A. The test year is a 12-month period, which is used as the basis for the audit of  
6 any rate filing or earnings complaint case. This period serves as the starting point for review  
7 and analysis of the utility's operations to determine the reasonableness and appropriateness of  
8 the rate filing. The test year forms the basis for making any adjustments necessary to remove  
9 abnormalities that have occurred during the period, and for reflecting any increase or decrease  
10 to the accounts of the utility. Adjustments are made to the test year level of revenues,  
11 expenses and rate base to determine the proper level of investment on which the utility is  
12 allowed to earn a return. After the recommended rate of return is determined for the utility, a  
13 review of existing rates is made to determine if any additional revenues are necessary. If the  
14 utility's earnings are deficient, rates need to be increased. In some cases, existing rates  
15 generate earnings in excess of authorized levels, which may indicate the need for rate  
16 reductions. The test year is the time period that is used to evaluate and determine the proper  
17 relationship between revenue, expense and investment. This relationship is essential to  
18 determine the appropriate level of earnings for the utility.

19 The Commission has described the importance of the test year as follows:

20 The test year is a central component in the ratemaking process. Rates  
21 are usually established based upon a historical test year which focuses  
22 on four factors: (1) the rate of return the utility has an opportunity to  
23 earn; (2) the rate base upon which a return may be earned; (3) the  
24 depreciation costs of plant and equipment; and (4) allowable operating  
25 expenses. From these four factors is calculated the 'revenue  
26 requirement,' which, in context of ratemaking, is the amount of revenue  
27 ratepayers must generate to pay the costs of producing the utility

1 service they receive while yielding a reasonable rate of return to the  
2 utility's investors. A historical test year is used because the past  
3 expenses of a utility provide a basis for determining.

4 Q. Why is a test year update being utilized in this case?

5 A. The use of a test year update allows test year data to remain current through the  
6 update period for changes in material items that are known and measurable. Such items could  
7 include plant additions and retirements, payroll increases and changes in employee levels,  
8 customer growth, changes in fuel prices, etc. Test year amounts are adjusted to enable the  
9 parties to make rate recommendations on the basis of the most recent auditable information  
10 available.

11 **EXECUTIVE SUMMARY**

12 Q. Please summarize your testimony.

13 A. My testimony includes all major rate base items of plant in service,  
14 depreciation reserve, contributions in aid of construction. In particular I sponsor adjustments  
15 to remove construction cost overruns incurred at Holiday Hills Resort for the well no. 2  
16 project; adjustments to reclassify excess water plant capacity to plant held for future use. On  
17 the income statement I principally address Staff annualized payroll expense.

18 **PAYROLL EXPENSE**

19 Q. Please describe Staff's annualization of payroll expense.

20 A. Staff believes that, all else being equal, it would be a detriment to the public  
21 interest to permit Algonquin to include in rates charged to customers a materially higher  
22 payroll expense than Silverleaf was charging prior to the transfer of assets effected in Case  
23 No. WO-2005-0206. Therefore, the level of payroll expense that Staff recommends

1 Algonquin be permitted to include in customers' rates is made with reference to Silverleaf's  
2 payroll expense just prior to the transfer of assets to Algonquin.

3 Q. Please describe the personnel that comprised Silverleaf's payroll prior to the  
4 transfer of assets.

5 A. Silverleaf maintained at its Missouri utility office a full-time office manager  
6 who divided her time between utility and non-utility matters. At a corporate office in the state  
7 of Texas, Silverleaf employed a utility manager to whom the Missouri utility office manager  
8 reported. It was my understanding that other similarly tasked office managers domiciled in  
9 other states where Silverleaf did business, also reported to the same utility manager in Texas.  
10 Additionally, Silverleaf had on its corporate Staff an engineer whose focus was the utility  
11 systems in all of the various states where Silverleaf did business.

12 Q. How were the payroll costs of these personnel charged to Silverleaf's Missouri  
13 utility customers?

14 A. Beginning with the 2000 small company rate increase request, Silverleaf  
15 personally represented to me that 50% of the Missouri utility office manager's time was spent  
16 on utility matters, with the other 50% being dedicated to other matters directly serving  
17 Silverleaf's resort business. Silverleaf and Staff developed an allocation percentage of the  
18 payroll costs for the Texas-based engineer and the utility manager. Additionally, Silverleaf  
19 requested that a portion of the Vice President for Resort Operations' compensation be  
20 allocated as a utility expense. Agreement was also reached on this percentage, however none  
21 of these agreements ended up affecting ratepayers, because no changes to Silverleaf's rates  
22 resulted from either the 2000 small company rate increase request, or the earnings  
23 investigation initiated by Staff in Case Nos. SC-2002-1039 and WC-2002-1040.

1 Q. What is the Staff's recommended payroll expense for Algonquin's Missouri  
2 properties?

3 A. Staff recommends including in rates charged to Algonquin's Missouri  
4 customers 100% of the payroll costs for a utility office manager and 50% of the payroll costs  
5 for a certified water and wastewater operator, and allowing the current allocation, on the basis  
6 of customer numbers, of non-Missouri domiciled operations personnel as proposed by  
7 Algonquin.

8 Additionally, to cover the administrative and general payroll and overhead costs  
9 incurred by corporate personnel, Staff recommends allowing the \$3.75 per water bill and  
10 \$3.25 per sewer bill fee provided for as of July 1, 2006, in the AGREEMENT TO PROVIDE  
11 OPERATIONS AND MAINTENANCE SERVICES, between Algonquin Water Services,  
12 and its Missouri affiliate. However, Staff is not finished conducting discovery on this item, as  
13 well as the 11% mark-up Algonquin has applied to all of its operations personnel salaries.  
14 Staff reserves the right to recommend disallowances of these costs in the progress of this case.

15 Staff recommends including the full costs of the contractor hired to operate the utility  
16 systems in Missouri.

17 Q. Why is Staff recommending that the portion of the utility office manager's  
18 salary charged to customers be increased to 100% under Algonquin's ownership and  
19 operation of the Missouri utility systems acquired from Silverleaf?

20 A. Now that the utility and the resorts on which they are located are no longer  
21 affiliated, Staff believes the task of managing customer accounts, of which Silverleaf  
22 represents the majority user in terms of gallons of water sold, has become more demanding of  
23 the office manager, in general. Additionally, given the facts that Timber Creek is both remote

1 from the utility office and that Silverleaf is the only customer of the utility, led to a relatively  
2 lighter involvement of the office manager. Now, however, Algonquin will find it in its best  
3 interest to fully manage customer accounts at Timber Creek Resort.

4 Q. Why does Staff believe payroll expense should include 50% of an on-site  
5 certified operator's compensation?

6 A. When Silverleaf owned and operated both the resorts and the utility systems,  
7 communications with the resort, as largest customer, regarding utility service issues, took  
8 place in an informal way that is no longer feasible. Staff believes it is beneficial for  
9 Algonquin to have an on-site personnel to act as a point of contact for utility operations  
10 related communications with the resort. Since Algonquin, like Silverleaf before it, has opted  
11 to fully contract out its actual utility operations, Staff believes that only 50% of an on-site  
12 representative for Algonquin on operational matters can be justified. Such a position is  
13 effectively a "pair of eyes" for Algonquin, to interface with resort representatives on  
14 occasional operational matters and can serve as an overseer of the actual contract operator,  
15 Construction Management Specialists. The other 50% of this personnel's time can very well  
16 be dedicated to oversight of operational matters at Algonquin's other properties located in  
17 other states.

18 Q. How does Staff's recommendation of payroll expense compare to Silverleaf's  
19 payroll costs?

20 A. Staff's recommendation in this case for payroll costs are higher than those costs  
21 were for Silverleaf.

1           Q.    How does Staff's recommendation of payroll expense compare with  
2 Algonquin's assessment of what was necessary, made at the time it took over ownership and  
3 management from Silverleaf?

4           A.    The Staff's recommendation would provide for a greater staffing level, and  
5 more payroll costs than Algonquin Water Services envisioned to be necessary on the  
6 August 15, 2005, effective date of ownership transfer, as shown in the AGREEMENT TO  
7 PROVIDE OPERATIONS AND MAINTENANCE SERVICES.

8           **RATE BASE**

9           Q.    Please summarize the history of Algonquin's ownership of its Missouri  
10 regulated water and sewer systems.

11          A.    In its Order Approving Sale of Assets, effective August 14, 2005, the  
12 Commission granted Algonquin a certificate of convenience and necessity to operate the  
13 water and sewer systems for which Silverleaf had been issued a certificate and was providing  
14 water and sewer services. Once the transfer of assets from Silverleaf to Algonquin was  
15 complete, as authorized by sale Case No. WO-2005-0206 (consolidated with SO-2005-0207);  
16 the Commission cancelled the certificates that Silverleaf at the time held. The sale between  
17 Algonquin and Silverleaf closed on August 15, 2006. Algonquin has been operating these  
18 water and sewer systems since that time. After the sale of the utility properties to Algonquin,  
19 Silverleaf continues to own and operate the three individual resorts in Missouri. Silverleaf  
20 also operates resorts in other states where Algonquin purchased the utility services when it  
21 acquired the Missouri properties.

22          Q.    Please describe briefly where Algonquin's Missouri water and sewer properties  
23 are physically located.

1           A.     Algonquin operates utility systems at 1) Timber Creek Resort (Timber Creek),  
2     near De Soto, Missouri about 30 miles south of St. Louis, 2) Ozark Mountain Resort (Ozark  
3     Mountain), in Kimberling City, Missouri, about 20 miles west and south of Branson, and 3)  
4     Holiday Hills Resort (Holiday Hills), just outside of Branson. All of these systems are located  
5     on properties otherwise owned by Silverleaf. Algonquin, just as Silverleaf before it, provides  
6     water and sewer service to Timber Creek and Ozark Mountain and water services to Holiday  
7     Hills.

8           Q.     How did Staff update rate base as of September 30, 2006, as ordered by the  
9     Commission in current Case No. WR-2006-0425 for each of three utility properties operated  
10    by Algonquin?

11          A.     Staff obtained evidence from Algonquin, in the form of invoices of any  
12    additions to plant made since the Staff's December 31, 2004, update performed in the sale  
13    transfer case, Case WO-2005-0206. Staff has reviewed the costs of plant additions and  
14    depreciation reserve over the span of several rate cases since the mid-1990s and examined  
15    numerous documents provided by Silverleaf and Algonquin to determine the appropriate  
16    values of the plant investment at these three utility properties. I have personally been  
17    involved in the 2000 small company rate increase request, and Case Nos. SC-2002-1039 and  
18    WC-2002-1040, as well as the sale case (WO-2005-0206), and have followed a consistent  
19    approach to reviewing documentation identifying plant costs for each of the three utility  
20    properties previously operated by Silverleaf, and now by Algonquin. Staff made its own  
21    independent assessment as to how any such additions should be classified, and also updated  
22    each plant account's depreciation reserve by applying Commission depreciation rates to

1 beginning of year plant balances, over the period of time since the last Staff update in Case  
2 No. WO-2005-0206.

3 Q. What documents have you examined in these cases relating to plant in service  
4 and depreciation reserve for these three utility properties?

5 A. Staff examined and reviewed purchased orders, invoices, construction  
6 estimates and budgets, contracts, letters concerning construction activities, and other related  
7 documents that identify the actual costs for the plant in service amounts included in rate base.

8 Q. What is the basis for the Staff review and evaluation of plant in service?

9 A. Staff relied on actual costs of the construction of the plant-in-service amounts.  
10 Staff employed the concept of "original costs".

11 Q. What is original cost?

12 A. The term "original cost," as defined by the Uniform System of Accounts for  
13 Class C Water Utilities (USOA), is as follows: "original cost, as applied to utility plant,  
14 means the cost of such property to the person first devoting it to public service."

15 Depreciation and amortization of the utility property from the previous owner must be  
16 deducted from the original cost, which results in a net original cost amount to be recorded on  
17 the purchaser's books and records. The acquired property is valued at the same value the  
18 seller placed on it, hence the concept of "original cost when first devoted to public service,"  
19 adjusted for depreciation and amortization.

20 Q. Is use of net original cost for valuing rate base still the predominant form of  
21 regulation?

1           A.     Yes. In the state of Missouri, the use of original cost less depreciation and  
2 amortization, *i.e.*, net original cost, to set rates is not only the predominant form of regulation,  
3 but to my knowledge, the only form that has ever been employed by this Commission.

4           Q.     How did you develop the Staff position on Algonquin's investment in rate  
5 base at this location?

6           A.     Staff considers plant in service to be valued at the original cost paid when first  
7 placed in service and rate base to transfer unchanged from Silverleaf to Algonquin, regardless  
8 of purchase price. Therefore, it is necessary to first describe how Staff determined the value  
9 of utility rate base under previous ownership by Silverleaf.

10          Q.     How did you determine rate base value of the utility systems under Silverleaf  
11 ownership, prior to transfer to Algonquin?

12          A.     The Staff Recommendation filed with the Commission in the 2005 acquisition,  
13 Case No. WO-2005-0206, included a presentation of Staff's assessment of rate base for  
14 Timber Creek Resort (Timber Creek), Ozark Mountain and Holiday Hills as of December 31,  
15 2004. As part of the work done to arrive at the Staff's recommendations in that case, I  
16 attended a Silverleaf-led plant tour of Timber Creek and performed discovery on the history  
17 of Silverleaf's investment in utility assets at the resort. In particular, Staff's position relies on  
18 information provided in the response to Data Request 12 and supplemental responses to Data  
19 Requests 12.1, 12.3, 12.4, and 12.5 issued in sale Case WO-2005-0206. Silverleaf informed  
20 Staff that it acquired the property, which it renamed Timber Creek Resort, in 1997 and set out  
21 to develop the infrastructure of the location, including water and sewer utilities, in preparation  
22 for constructing and operating recreational and vacation facilities and lodgings. Silverleaf

1 was at the time, and currently still is, primarily in the business of developing and operating  
2 timeshare resort properties.

3 Q. Did Staff's evaluation of the three utility properties' plant costs through  
4 December 31, 2004, rely upon work that the Staff performed in prior cases?

5 A. Yes. The plant costs analysis conducted in Case No. WO-2005-0206 used  
6 previous audit work in prior cases dating back to the certificate cases for each utility property.

7 Q. Please explain your Schedules GAV-2A, GAV-2B, GAV-2C, GAV-2D, and  
8 GAV-2E, showing Staff's adjustments to plant in service, for Holiday Hills, Ozark Mountain  
9 (water), Ozark Mountain (sewer), Timber Creek (water), Timber Creek (sewer).

10 A. These schedules detail the step-wise fashion Staff used for arriving at it final  
11 result. Step 1 of each schedule shows the adjustment process for converting the company's  
12 test year plant balances to the Staff's test year balances. This represents any existing  
13 unaccounted for differences between Staff and company. This now makes it possible to  
14 identify further adjustments for explainable differences between Staff and company. Staff has  
15 in the past conveyed to Silverleaf the existence of this unaccounted for differences, without  
16 receiving any response from Silverleaf. Step 2 of the adjustment updates plant for known and  
17 measurable changes through September 30, 2006. Step 3 of the adjustment process shows the  
18 effect of Staff's recommended disallowance for construction cost overruns at Holiday Hills as  
19 described at length in my testimony below. Step 4 of the adjustment process shows the effect  
20 of Staff reclassification of excess plant capacity discussed in Staff witness James A. Merciel's  
21 testimony filed in this case. Steps 1 and 2 of the adjustment process were necessary on each  
22 schedule, GAV-2A through GAV-2E. Steps 3 and 4 only applied to the systems to which the

1 relevant adjustments were applicable, as explained below in testimony, and in Mr. Merciel's  
2 testimony.

3 Q. Please explain Schedule GAV-2F of your testimony.

4 A. This schedule shows the one-step process of adjusting Staff's test year plant  
5 reserve balances to reflect updates through September 30, 2006. Staff's test year reserve was  
6 used as such information for the company could not be gleaned from the company's records.

7 Q. Please describe your Schedules GAV-3A, through GAV-3E attached to your  
8 testimony.

9 A. These schedules show plant in service and depreciation reserve computed by  
10 Staff for each account at Holiday Hills, Ozark Mountain (water), Ozark Mountain (sewer),  
11 Timber Creek (water), and Timber Creek (sewer), respectively, for the period January 1,  
12 2004, through the update period of this case, September 30, 2006. These are provided as an  
13 illustration of the ongoing, methodical, approach Staff has always taken in tracking the  
14 company's (and its predecessor's) investment in plant at each of its utility systems.

15 Q. Please describe your schedules GAV-3F and GAV-3G.

16 A. Schedule GAV-3F contains Staff's computation of the balance of contributions  
17 in aid of construction (CIAC) for each of Algonquin's systems; Schedule GAV-3G shows  
18 details of the process Staff employed to compute the value of the booster station at Holiday  
19 Hills Resort, which is a project whose costs are required by tariff to be contributed at no cost  
20 to Algonquin.

21 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

22 Q. Please describe this issue.

1           A.     Silverleaf's tariffs require a customer to pay for the actual cost of extending  
2 water distribution mains and sewer collection mains as needed to provide service to that  
3 customer. This immediate financial contribution from the customer helps alleviate the burden  
4 on the utility of having to finance this cost itself. Therefore, unlike the rest of the utility plant  
5 in service, these water and sewer mains financed by customer contributions are not an  
6 investment that the utility has made and do not increase the utility's rate base. Under the  
7 provisions of Silverleaf's tariffs, this treatment applies to all of Silverleaf's utility customers  
8 and, notably, also applies to developers.

9           Q.     What are contributions in aid of construction (CIAC)?

10          A.     The USOA defines CIAC in item 6 of the Accounting Instructions as follows:

11                   Utility Plant – Contributions in Aid of Construction

12                  A.     Nonrefundable contributions of cash or plant facilities donated to  
13 the water utility to assist it in constructing, extending or relocating its  
14 water facilities shall be credited to account 271 – Contributions in Aid  
15 of Construction.

16                  B.     Balances in this account representing contributions of depreciable  
17 plant shall be amortized using the contra account 272 – Accumulated  
18 Amortization of Contributions in Aid of Construction. The  
19 corresponding credit shall be to account 403 – Depreciation Expenses.

20                  C.     The balance in this account representing contributions of non-  
21 depreciable plant shall remain unchanged until such time as the  
22 property is sold or otherwise retired. At the time of retirement of non-  
23 depreciable contributed plant, its cost shall be credited to the  
24 appropriate plant account and charged to account 271.

25                   Account 271 – Contributions in Aid of Construction – states:

26                  A.     This account shall include:

27                          1. Any amount or item of money, services or property received by a  
28 utility, from any person or governmental agency, any portion of which  
29 is provided at no cost to the utility, which represents an addition or  
30 transfer to the capital of the utility, and which is utilized to offset the  
31 acquisition, improvement or construction costs of the utility's property,  
32 facilities, or equipment used to provide utility service to the public.

1 2. Amounts transferred from Account 252 – Advances for  
2 Construction, representing un-refunded balances of expired contracts or  
3 discounts resulting from termination of contracts in accordance with the  
4 Commission's rules and regulations.

5 3. Compensation received from governmental agencies and others for  
6 relocation of water mains or other plants.

7 4. Any amount of money received by a utility, any portion of which is  
8 provided at no cost to the utility, which represents an addition or  
9 transfer to the capital of the utility and which is utilized to offset the  
10 federal, state or local income tax effect of taxable contributions in aid  
11 of construction, taxable amounts transferred from Account 252 –  
12 Advances for Contribution, and taxable compensation received from  
13 governmental agencies and others for relocation of water mains or  
14 other plants shall be reflected in a sub-account of this account.

15 B. The credits to this account shall not be transferred to any other  
16 account without the approval of the Commission.

17 C. The records supporting the entries to this account shall be so kept  
18 that the utility can furnish information as to the purpose of each  
19 donation, the conditions, if any, upon which it was made, the amount of  
20 donations from (a) states, (b) municipalities, (c) customers, and  
21 (d) others, and the amount applicable to each utility department.

22 Silverleaf's tariffs required the Company to identify CIAC amounts received from  
23 customers and developers, and the USOA requires that the record-keeping be maintained for  
24 CIAC on a very detailed basis.

25 Q. Who are Algonquin's utility customers?

26 A. Silverleaf is the main customer of Algonquin. However, when Silverleaf  
27 owned the utility prior to Algonquin, in virtually all instances the customer requiring a main  
28 line to be extended in order to be able to receive utility service was Silverleaf itself, acting as  
29 a developer of its own resort properties. In some cases the facilities built by Silverleaf, the  
30 developer, were then sold to members of the general public who from then on became the  
31 customers being billed for utility service. Even so, Silverleaf, the developer, would still have  
32 been responsible for paying for the construction of the subject main extensions. Despite the

1 fact that Silverleaf, the developer, was required to pay for the main water and sewer lines, this  
2 did not increase the investment base of Silverleaf, the utility company. This interpretation has  
3 met with some resistance from Silverleaf in the past, but it remains the Staff's position, as it is  
4 consistent with the treatment accorded all other developers under the provisions of  
5 Silverleaf's tariffs.

6 Q. Does Algonquin have a tariff for CIAC?

7 A. Yes. Silverleaf's water tariffs, which were canceled and adopted by Algonquin  
8 as a result of Case No. WO-2005-0206, provides as follows:

9 Rule 14 EXTENSION OF WATER MAINS

10 (a) This rule shall govern the extension of mains by the company  
11 within its certified area where there are no water mains.

12 (b) Upon receipt of written application for a main extension, the  
13 company will provide the applicants an itemized estimate of the cost of  
14 the proposed extension. Said estimate shall include the cost of all labor  
15 and materials required, including valves, fire hydrants, booster stations,  
16 storage facilities, reconstruction of existing mains (if necessary), and  
17 the direct costs associated with supervision, engineering, permits, and  
18 bookkeeping. Applicable income tax cost will be added to this estimate  
19 calculated at the maximum rate.

20 (c) Applicant shall enter into a contract with the company for the  
21 installation of said extension and shall tender to the company a  
22 contribution in aid of construction equal to the amount determined in  
23 paragraph (b) above, plus any applicable customer connection fee. The  
24 contract may allow the customer to contract with an independent  
25 contractor for the installation and supply of material, except that mains  
26 of 12" or greater diameter must be installed by the company, and the  
27 reconstruction of existing facilities must be done by the company.

28 (d) Extensions made under this rule shall be made and remain the  
29 property of the company.

30 Q. Please present the relevant portions of the tariffs governing the provision of  
31 sewer service, previously by Silverleaf, then canceled and adopted by Algonquin without  
32 change as a result of Case No. WO-2005-0206.

Rule 11 EXTENSION OF COLLECTING SEWERS

A. Collecting sewers will be extended within the company's certificated service area, at the applicant's cost (sometimes referred to in this rule as the "original applicant"), if service is required by the applicant at a location where facilities do not exist. The applicant shall enter into a contract with the company. The applicant may choose to have the company perform all work under the terms and conditions of Paragraph C, following, or have a private contractor perform the work under the terms and conditions of Paragraph D, following. For purposes of this rule, an extension could include, in addition to a collecting sewer, one or more pump station or treatment plant facilities, as necessary to provide service.

...

C. The company will extend collecting sewers for the applicant under the following terms and conditions:

(1) Upon receipt of written application for service as provided in Rule 4, Applications for Service, the company will provide the applicant an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including reconstruction of existing facilities if necessary, and the direct costs associated with supervision, engineering, permits, and bookkeeping. Applicable income tax calculated at the maximum rate will be added to this estimate.

(2) The applicant shall enter into a contract with the company for the installation of said extension and shall tender to the company a contribution-in-aid-of-construction equal to the amount determined in Paragraph C (1) above, plus any appropriate fees as provided in the Schedule of Rates or the Schedule of Service Charges.

D. When the applicant elects to construct an extension, the company will connect said extension to its existing collecting sewers under the following terms and conditions:

...

(3) Applicant shall enter into a contract with the company which provides that the applicant construct said collecting sewers and/or other facilities to meet the requirements of all governmental agencies and the company's rules. Plans for the extension shall be submitted to the company for approval prior to construction. Applicant's choice of construction contractor is subject to approval by the company. Applicant shall contribute said facilities to the company with a detailed accounting of the actual cost of construction, contribute

1 to the company an amount equal to the company's estimated income  
2 tax cost calculated at the maximum rate, and contribute to the company  
3 the estimated cost of the company's inspection.

4 Q. Did Silverleaf recognize CIAC plant when it owned these utility properties?

5 A. Yes. In its PSC Annual Report submitted to the Commission, Silverleaf  
6 identified an amount of plant costs as CIAC. However, when Algonquin submitted its 2005  
7 PSC Annual Report earlier this year, the Company did not identify any plant costs as CIAC.  
8 Algonquin simply did not recognize the plant costs that Silverleaf classified as CIAC.

9 Q. How is CIAC identified?

10 A. Plant costs that are contributed by developers and customers are typically  
11 identified at the time of the actual construction of the development property. It is nearly  
12 impossible to ascertain the nature of the development costs after-the-fact as time passes, so it  
13 is critically important to maintain good records during the development phase of a project, so  
14 actual costs can be segregated between legitimate utility plant costs, which would be included  
15 as part of utility plant in service, and those costs that should be classified as CIAC plant.

16 Q. What are developer costs?

17 A. These costs are those that the developer must incur to sell or otherwise market  
18 the development. For lots for housing, developers typically make improvements for  
19 sidewalks, roads and curbing as well as utility services. In the case of Silverleaf, the  
20 developers invested in the development the condominiums and time shares, which required  
21 the same type of utility infrastructure as residential lots. New developments that are not fully  
22 built out may not result in the sale of all lots, so utilities will require monies to be provided to  
23 fund the utility infrastructure. Since the utility has not provided the investment dollars to fund  
24 these developments, the costs relating to the infrastructure are not included in the utilities' rate

1 base investment. No investment is made by the utility so it is not allowed to earn a return on  
2 the developer's investment dollars.

3 Q. How are developer costs recovered?

4 A. These costs are reflected in the price of the sale of the lots or condominiums  
5 and residential housing units. The developer will price the real estate being sold, considering  
6 all the costs of the development including the upgrades and improvements for sidewalks,  
7 roads and curbing and the utility infrastructure.

8 **Timber Creek Resort**

9 Q. In your assessment, what plant-in-service items made up Silverleaf's  
10 investment in rate base at the time of asset transfer to Algonquin?

11 A. As a result of discovery performed in sale Case WO-2005-0206, I concluded  
12 that water and sewer rate base consisted virtually only of the cost of the projects to install the  
13 water plant (Silverleaf Project No. 3010), and the sewer treatment plant (Silverleaf Project  
14 No. 3009). According to the response to Data Request 12, cited above, both of these projects  
15 were completed and placed in service in 2001.

16 Q. Did Silverleaf incur any other known costs for utility plant in service at Timber  
17 Creek that you are specifically not including in your calculation of rate base transferred to  
18 Algonquin?

19 A. Yes. Silverleaf, in its capacity of resort developer, as opposed to public utility  
20 company, did incur such costs. As part of the process of developing the resort to support  
21 operation of its timeshare vacation lodgings and other amenities, Silverleaf incurred all costs  
22 to plan, design, and install water distribution lines and sewer collector lines to each new  
23 developed area to be served. The tariffs issued by the Commission to regulate the provision

1 of service by Silverleaf, in its capacity of public utility company, provided for water  
2 distribution lines and sewer collector lines to be charged to the developer necessitating the  
3 installation of such lines. If a developer applies for an extension to a water or sewer line, the  
4 tariffs permit the option of either a) the utility company performing the work, after being paid  
5 to do so by the developer, or b) having the developer perform the work directly after  
6 coordination with the utility company. In both cases the plant installed becomes utility  
7 property contributed by the developer, at no expense to the utility company. This property is  
8 called contributions in aid of construction (CIAC).

9 Q. Please clarify the distinction Staff is drawing between Silverleaf, when  
10 previously serving as a public utility company regulated by the Commission, and Silverleaf,  
11 when it was instead acting as a resort developer and operator competing in the free market.

12 A. Silverleaf was the first holder of a certificate of necessity and convenience  
13 (Certificate) issued by the Commission for providing water and sewer service at Timber  
14 Creek Resort. Silverleaf made investments in utility plant in order to be able to provide  
15 service to the vacation and recreational facilities it was planning to build and operate on  
16 location. In order for the Commission to be able to regulate Silverleaf's utility rates it has  
17 been necessary to distinguish between the activities, investments, revenues, and expenses of  
18 Silverleaf, when acting as developer as opposed to when it was acting as a public utility  
19 company. From the time Silverleaf, as a public utility, was issued a Certificate at Timber  
20 Creek, until the effective date of transfer under sale Case WO-2005-0206, Silverleaf, as resort  
21 developer and operator, was the only water and sewer customer. Since the effective date of  
22 the aforementioned transfer, Silverleaf, now exclusively a resort developer and operator, has  
23 been the only water and sewer customer of Algonquin at Timber Creek Resort. Silverleaf

1 continues to be the owner of all three resorts wherein Algonquin now owns and operates the  
2 Commission-regulated water and sewer systems. Since Silverleaf and Algonquin are not  
3 related companies, the separation between resort developer/operator and water/sewer utility  
4 since the date of asset transfer is now a matter of fact.

5 Q. Was it, however, equally important to draw the distinction, as stated above,  
6 between resort and utility activities, during the period that Silverleaf owned both the resort  
7 and the utilities?

8 A. Yes, particularly at the other two Missouri resorts owned by Silverleaf; but  
9 also at Timber Creek.

10 Q. Please explain.

11 A. Since receiving a Certificate to provide utility service at Holiday Hills and  
12 Ozark Mountain, until the transfer to Algonquin, Silverleaf's utility customers included both  
13 its own facilities and the facilities of unrelated private parties. At these locations it was part  
14 of the Staff's responsibilities to ensure that water and sewer service provided in affiliated  
15 transactions between the utility and the resort were not carried out so as to be detrimental to  
16 non-affiliated customers. This would have taken place, for example, if the cost of plant  
17 properly required under tariff to be contributed by the developer were instead included in the  
18 utility's investment in rate base. Under these conditions, a portion of the utility charges that  
19 should have been absorbed by the developer (Silverleaf) would instead have been billed to  
20 non-affiliated customers.

21 Q. How did this concern apply at Timber Creek, where Silverleaf did not have  
22 non-affiliated customers?

1           A.     For one thing, the possibility always existed that Silverleaf might at some point  
2 construct and sell and transfer ownership of condominium units, for example, thus creating  
3 non-affiliated utility customers that would be billed for service as it exists at Silverleaf's other  
4 two Missouri resorts. In fact, nothing prevents Silverleaf, currently or in the future, as owner  
5 of Timber Creek, from doing so. Additionally, if an eventual sale of the utilities took place,  
6 as in fact occurred, it would be necessary to know the value of rate base to Silverleaf, in order  
7 to ascertain whether or not the acquisition took place at a premium. This Commission has  
8 never agreed to include an acquisition premium in rate base. As the value of rate base does  
9 not change merely because of change of ownership, in order to treat customers fairly after the  
10 sale of the utilities to Algonquin, it was necessary to know what its value was, in Silverleaf's  
11 hands, at the time of the sale case.

12           Q.     Are you aware of any other utility assets in service at Timber Creek, not  
13 already accounted for above, that are not included in Staff's calculation of rate base, whether  
14 prior to or after the sale to Algonquin?

15           A.     Yes. During the discovery conducted in sale Case WO-2005-0206, Staff  
16 issued Data Request 12, in which Item 2 asked Silverleaf to "Prepare for PSC staff review at  
17 the Holiday Hills resort utility office the following information regarding plant expenditures  
18 at Timber Creek: a) An itemized description of all water and sewer plant assets acquired from  
19 any previous owner, along with cost and date when originally placed in service by the  
20 previous owner, as well as the price paid by Silverleaf." Silverleaf replied as follows:

21                     Silverleaf Resorts, Inc. acquired the existing water well and distribution  
22 system, as well as a small wastewater treatment facility, at Jefferson  
23 Resort in 1997 [re-named Timber Creek Resort by Silverleaf]. The  
24 water system included a well and pump, capable of delivering 140 gpm  
25 along with a distribution system consisting of 6" and 4" mains with  
26 service lines to existing campsites and ancillary buildings. The water

1 system also included a standpipe. It is estimated the water distribution  
2 system was constructed around 1983. The well continues to remain in  
3 service, along with many of the distribution lines to campsites,  
4 although the existing standpipe was removed and replaced by a new  
5 water treatment facility and storage tank in 2001.

6 The wastewater treatment plant consisted of a small (20' X 18') tank  
7 and clarifier. This plant was taken out of service in lieu of a new  
8 wastewater treatment facility. The tank was re-used as an equalization  
9 basin for the new plant. Currently, the wastewater is pumped into this  
10 basin directly from the sewer system.

11 The original construction costs associated with the water and sewer  
12 facilities at Jefferson Resort are unknown. There are no costs reflected  
13 on the utilities books as a result of the acquisition of the *Jefferson*  
14 *Resort from Thousand Trails, Inc.*[emphasis added]

15 Q. Have you attempted to include any costs in rate base, in order to reflect the  
16 utility plant acquired at Timber Creek for which Silverleaf had no cost records?

17 A. No. Without any cost records the Staff recommends against including any  
18 investment in rate base for such plant.

19 Q. How did Staff update rate base as of September 30, 2006, as ordered by the  
20 Commission in current Case No. WR-2006-0425?

21 A. Staff obtained invoices of any additions to plant that were made since the  
22 Staff's December 31, 2004, update. Staff had reviewed the costs of plant additions and  
23 depreciation reserve over the span of several rate cases since the early 1990s. I have  
24 personally been involved in two of these rate cases and the sale case and have followed a  
25 consistent approach to reviewing the documentation that identifies plant costs for each of the  
26 three utility properties operated by Silverleaf, and now Algonquin. Staff made its own  
27 independent assessment as to how any such additions should be classified, and also updated  
28 each plant account's depreciation reserve by applying Commission-prescribed rates to

1 beginning-of-year plant balances, over the period of time since the last Staff update in Case  
2 No. WO-2005-0206.

3 Q. Please summarize how the Staff's position on rate base at Timber Creek was  
4 determined in Case No. WR-2006-0206.

5 A. Rate base has been calculated beginning with the original cost of plant, when  
6 first put into operation providing utility service. Silverleaf was not able to provide cost  
7 evidence for the water and sewer systems on site when it acquired Timber Creek, therefore  
8 any such plant remaining in service has not been assigned any rate base value. Staff reviewed  
9 the investment Silverleaf made in utility plant after it acquired Timber Creek, through  
10 December 31, 2004, and updated depreciation reserve at Commission rates. Staff then  
11 reviewed any plant activity by Silverleaf and/or Algonquin after December 31, 2004, updating  
12 plant in service and depreciation reserve balances accordingly through September 30, 2006.  
13 Staff has followed the requirements of the tariffs in determining what plant was required to be  
14 contributed by the developer, assigning zero rate base value to such plant, and ensuring in its  
15 calculations that rate base under Silverleaf's ownership was transferred unchanged to  
16 Algonquin, irrespective of the price Algonquin may have paid for the underlying plant assets.

17 **Ozark Mountain Resort**

18 **Certificate Case --- Case No. WA-94-246**

19 Q. How did you develop the Staff's position on Algonquin's investment in rate  
20 base at this location?

21 A. On July 1, 1994, the Commission issued its Order Granting Certificate\_(Order)  
22 in Case No. WA-94-246, authorizing Ascension Resorts, Ltd. (later re-named Silverleaf  
23 Resorts, Inc.) at Ozark Mountain Resort to provide public water and sewer service at specified

1 rates. Selecting 1993 as the test year, the Staff had made its first assessment of rate base and  
2 cost of service at Ozark Mountain in the work required to support its recommendations cited  
3 in the Order. The Commission's Order and the Staff's Memorandum including such  
4 recommendations, as well as correspondence and work papers showing the Staff's work, are  
5 all preserved for the record. Staff has relied on this starting-point rate base from 1993 and  
6 continued the review of the plant investment in each successive rate cases, including in the  
7 sale case in 2005, and concluding with this case, Case No. WR-2006-0425.

8 **1997 Small Company Rate Increase Request**

9 Q. What was the next time that Staff made an audited assessment of rate base at  
10 Ozark Mountain?

11 A. Staff records indicate that in April 1997 Silverleaf submitted a request, under  
12 the Commission's small water and sewer case process, to increase rates at Ozark Mountain  
13 (and Holiday Hills Resort). In the resulting small company rate increase request, the Staff  
14 used 1997 for the test year. Staff's audit memorandum and work papers produced in that case  
15 acknowledged that utility plant had been in service at these two resorts as far back as 1984  
16 and indicate that the Staff made a thorough review of Silverleaf's investment in utility plant.  
17 A prominent feature of the Staff's position was a determination that a majority of plant in  
18 service at Ozark Mountain (as well as Holiday Hills) should be classified as contributed under  
19 the provisions of the tariffs. Ultimately, the Staff recommended a rate increase based on its  
20 assessment of rate base and operating costs at both of these resorts.

1     **2000 Small Company Rate Increase Request**

2           Q.     Please proceed by describing the next time the Staff evaluated rate base at  
3     Ozark Mountain.

4           A.     Staff records indicate that in August 2000 Silverleaf submitted a request, again  
5     under the Commission's small water and sewer case process, to increase rates at Ozark  
6     Mountain (and Holiday Hills). In the resulting case, I participated in the audit of Silverleaf's  
7     utility books and records for both Ozark Mountain and Holiday Hills, based on a test year  
8     ending October 31, 2000.

9           Q.     In that audit, how did you determine the rate base as of October 31, 2000?

10          A.     Using the December 31, 1997, plant account balances determined in the  
11     previous case, I updated such balances to reflect any plant additions through October 31,  
12     2000, for which Silverleaf provided sufficient evidence. In deciding which accounts the plant  
13     additions should be classified to, contributed plant balances were also updated by continuing  
14     the previously adopted tariff-based approach. I also updated depreciation reserve by applying  
15     rates prescribed by the Commission in the previous case to each year's beginning plant  
16     balance.

17          Q.     Is it typical for Staff to actually make its own independent update of plant and  
18     reserve in this manner, without relying on the utility's own account balances?

19          A.     Yes, it is, when performing an audit in an informal case such as those  
20     previously submitted by Silverleaf. Water and sewer utilities, owing to their size and to the  
21     fact that they typically exist only to support the parent company's development business,  
22     often don't make it a priority to become entirely proficient in regulatory accounting. To save  
23     such firms the relatively significant expense of preparing and filing a formal rate increase  
24     request, the small company rate increase process places upon Staff auditors the requirement

1 for preparing more independent calculations, and placing less reliance on company account  
2 balances, than is the case in formal filings by typically larger utility companies. Staff will  
3 determine plant investment amounts from invoices, billings, contracts, letters concerning  
4 construction activities and any other piece of information documentation that provide reliable  
5 evidence to substantiate the costs of utility property.

6 **Case Nos. SC-2002-1039 and WC-2002-1040**

7 Q. Was there another later case that required Staff to update rate base at Ozark  
8 Mountain?

9 A. Yes, in Cases Nos. WC-2002-1040 and SC-2002-1039 the Staff initiated an  
10 investigation of Silverleaf's water and sewer earnings. As a result, I participated in the audit  
11 of Silverleaf's utility books and records using a test year ending September 30, 2002.  
12 Beginning with the plant account balances I had previously established at October 31, 2000, I  
13 updated plant for any documented additions made through September 30, 2002. Likewise, I  
14 update the Staff's previously determined depreciation reserve balances by applying to  
15 beginning-of-the-year plant balances the Commission-prescribed rates, through September 30,  
16 2002. Little activity in the way of plant additions was noted at Ozark Mountain during this  
17 period. Overall, the Staff's findings in this investigation did not indicate a condition of over-  
18 earnings at Silverleaf's service areas, and the Commission ended this proceeding by Order  
19 dated November 20, 2003, closing Case Nos. WO-2002-1040 and SO-2002-1039.

20 **Case No. WO-2005-0206**

21 Q. Did Staff perform a rate base update in sale Case No. WO-2005-0206, in  
22 which the Commission authorized the transfer of utility assets from Silverleaf to Algonquin?

1           A.     Yes, it did. In sale Case No. WO-2005-0206 the Staff Recommendation  
2 submitted with the Commission contained an update, as of December 31, 2004, of rate base at  
3 Silverleaf's Missouri resorts. This was done to support Staff's opinion, based on the portion  
4 of the purchase price assigned to Silverleaf's Missouri utilities, that Algonquin would be  
5 acquiring these utility systems at a premium. Staff produced this update to rate base in the  
6 usual way by starting with previously determined plant account balances at September 30,  
7 2002, and including any plant additions that Silverleaf could document.

8           **Case No. WR-2006-0425**

9           Q.     Finally, please describe how you prepared Staff's update of rate base at Ozark  
10 Mountain, through the required September 30, 2006, date in this current Case No.  
11 WR-2006-0425.

12          A.     I requested Algonquin provide general ledger data for the twelve months of the  
13 test year, as well as through the September 30, 2006, update ordered by the Commission.  
14 Staff compared the plant balances in Silverleaf's general ledger that were closest to the  
15 August 2005 transfer date. Staff also requested from Algonquin invoices supporting any  
16 additions to plant made throughout this period either by Silverleaf, before the transfer of  
17 property, or by Algonquin since it acquired the property. With this information it was  
18 possible to update the Staff's calculation of rate base from the plant and reserve balances  
19 determined by Staff as of December 31, 2004, in sale Case No. WO-2005-0206, to the current  
20 September 30, 2006 update period.

21          Q.     Please summarize Staff's approach to determining Algonquin's September 30,  
22 2006, investment in rate base at Ozark Mountain.

1           A.     Rate base has been calculated beginning with the original cost of plant paid  
2 when first put into operation providing utility service. Staff reviewed any additional  
3 investment made in utility plant, first by Silverleaf and later by Algonquin, and updated  
4 depreciation reserve computed at Commission-prescribed rates. Staff has followed the  
5 requirements of the tariffs in determining what plant was required to be contributed by the  
6 developer, assigning zero rate base value to such plant, and ensuring that rate base under  
7 Silverleaf's ownership was transferred at unchanged value to Algonquin, irrespective of the  
8 price Algonquin may have paid for the underlying plant assets.

9           **Holiday Hills Resort**

10          **Case No. WA-94-60**

11          Q.     How did you develop the Staff's position on Algonquin's investment in rate  
12 base at this location?

13          A.     On January 26, 1994, the Commission issued its Order Approving Certificate  
14 of Convenience and Necessity (Order) in Case No. WA-94-60, authorizing Ascension  
15 Resorts, Ltd. (later renamed Silverleaf Resorts, Inc.) at Holiday Hills Resort (Holiday Hills) to  
16 provide public water and sewer service at specified rates. With 1993 selected as the test year,  
17 the Staff had made its first assessment of rate base and cost of service at Holiday Hills in the  
18 work required to support its recommendations cited in the Order. The Commission's Order  
19 and the Staff's Memorandum including such recommendations, as well as correspondence  
20 internal to the Staff and external with Ascension Resorts, are all preserved for the record.

1 **1997 Small Company Rate Increase Request**

2 Q. What was the next time that Staff made an audited assessment of rate base at  
3 Holiday Hills?

4 A. Staff records indicate that in April 1997 Silverleaf submitted a request, under  
5 the Commission's water and sewer small company rate increase process, to increase rates at  
6 Holiday Hills (and Ozark Mountain Resort). In the resulting small case the Staff used 1997  
7 for the test year. Staff's audit memorandum and work papers produced in that small case  
8 acknowledged that utility plant had been in service at these two resorts as far back as 1984,  
9 and they indicate Staff made a thorough review of Silverleaf's investment in utility plant. A  
10 prominent feature of the Staff's position was a determination that a majority of plant in  
11 service at Holiday Hills (as well as Ozark Mountain Resort) should be classified as  
12 contributed, in accordance with tariff requirements. Ultimately, the Staff recommended a rate  
13 increase based on its assessment of rate base and operating costs at both of these resorts.

14 **2000 Small Company Rate Increase Request**

15 Q. Please proceed by describing the next time the Staff evaluated rate base at  
16 Holiday Hills.

17 A. Staff records indicate that in August 2000 Silverleaf submitted a request, under  
18 the Commission's small water and sewer case process, to increase rates at Holiday Hills (and  
19 Ozark Mountain Resort). In the resulting small case, I participated in the audit of Silverleaf's  
20 utility books and records based on a test year ending October 31, 2000.

21 Q. In that audit, how did you determine the rate base as of October 31, 2000?

22 A. Using the December 31, 1997, plant account balances determined in the  
23 previous small case, I updated such balances to reflect any plant additions through

1 October 31, 2000, for which Silverleaf provided sufficient evidence. In deciding which  
2 accounts the plant additions should be classified to, contributed plant balances were also  
3 updated by continuing the previously adopted tariff-based approach. I also updated  
4 depreciation reserve by applying rates prescribed by the Commission in the previous case to  
5 each year's beginning plant balance.

6 **Case Nos. SC-2002-1039 and WC-2002-1040**

7 Q. Was there another later case that required Staff to update rate base at Holiday  
8 Hills?

9 A. Yes, in Cases Nos. WC-2002-1040 and SC-2002-1039 the Staff initiated an  
10 investigation of Silverleaf's water and sewer earnings. As a result, I participated in the audit  
11 of Silverleaf's utility books and records using a test year ending September 30, 2002.  
12 Beginning with the plant account balances I had previously established at October 31, 2000, I  
13 updated plant for any documented additions made through September 30, 2002. Likewise, I  
14 updated the Staff's previously determined depreciation reserve balances by applying to  
15 beginning-of-the-year plant balances the Commission-prescribed rates, through September 30,  
16 2002. Overall, the Staff's findings in this investigation did not indicate a condition of over-  
17 earnings at Silverleaf's service areas, and the Commission ended this proceeding by Orders  
18 dated November 20, 2003, closing Cases Nos. WO-2002-1040 and SO-2002-1039. However,  
19 unlike at Ozark Mountain, I became aware of substantial plant activity having taken place at  
20 Holiday Hills.

21 Q. Please describe the plant activity that had taken place since your previous audit  
22 of Holiday Hills.

1           A.     Previously, the regulated water system at Holiday Hills utilized only one well.  
2     Records indicate that the resort had installed a second well in 1996, but its sole function had  
3     been for irrigation purposes. Under this arrangement, this well was used to provide untreated  
4     ground water for the resort's nearby golf course and was not in any way connected to the  
5     regulated water system. In July of 2002, Silverleaf completed a project to connect this second  
6     well to the regulated water system, while maintaining much of the well's production of water  
7     for irrigation purposes. Other than piping revisions to split the well's output between  
8     irrigation and public water supply, the other main features of the project included adding an  
9     above ground storage tank, a chlorination system, and a pump house with pressure tank. In  
10    relation to the scope of the regulated water system at Holiday Hills, this was a major  
11    investment in utility plant.

12           Q.     What facts came to your attention that led you to recommend disallowing a  
13    portion of the costs of this project?

14           A.     The construction project that added a second well (No. 2) to the water supply  
15    system at Holiday Hills experienced an abnormal amount of construction stoppages that led to  
16    material growth in the contract costs. Staff believes that Silverleaf's expenditures on the  
17    project were not a fair reflection of the necessary and prudent cost of the work received;  
18    therefore it would not be reasonable to record the project at actual cost in Silverleaf's (now  
19    Algonquin's) utility accounts. The Staff recommends writing off the unnecessary costs and  
20    recording the project at the cost that the available evidence indicates Silverleaf would have  
21    incurred absent the avoidable delays.

22           Q.     Please describe these delays.

1           A.     Silverleaf's response to Data Request 29 in Case No. WO-2002-1040 stated  
2     that after Silverleaf awarded the construction contract for the work in question to Larry  
3     Snyder & Company (LSC) on December 18, 1998, it then issued a work stoppage order on  
4     March 17, 1999. At this time Silverleaf apparently realized that the project, as designed, was  
5     not coordinated with other plans to develop the resort (Holiday Hills). My Schedule GAV-4  
6     includes a copy of the project file document by an unnamed Silverleaf employee in which it is  
7     stated that "the whole site is moving". From that point on, the following is a list of key events  
8     that show how these coordination difficulties affected the progress of the Well No. 2 project:

- 9           •     **January 14, 2000:** Silverleaf's engineer (Wasteline  
10     Engineering Inc.) issues a request to Larry Snyder Company to provide  
11     a cost impact of revising the work to be done, and expressing the desire  
12     to have another preconstruction conference (Schedule GAV-5)
- 13          •     **May 8, 2000:** Notice to re-start work on the Well No. 2 project  
14     is issued to Larry Snyder Company (Schedule GAV-6).
- 15          •     **June 21, 2000:** Letter from Mike Saunders, P.E., of Wasteline  
16     Engineering, Inc. to Michael Brown, of Silverleaf, in which Mr.  
17     Saunders states "I have not yet determined a solution to the irrigation  
18     water problem". (Schedule GAV-7)
- 19          •     **July 17, 2000:** Larry Snyder Company is notified of additional  
20     changes to the project beyond those stated previously on January 14,  
21     2000, and again requesting a cost impact from builder. "Special  
22     Specifications" are produced and issued to the builder detailing these  
23     revisions.
- 24          •     **November 7, 2000:** Notice to re-start work is issued to Larry  
25     Snyder Company. A cost impact of \$31,209 for the revisions of  
26     Change Order No. 1 (Revised) had been received from Larry Snyder  
27     Company.
- 28          •     **December 12, 2000:** A preconstruction conference was held,  
29     attended by representatives of Silverleaf, Wasteline Engineering, Larry  
30     Snyder Company, and George&Associates, a soil testing company.
- 31          •     **January 26, 2001:** Notice to stop work on the project until  
32     April 1, 2001 is issued to Larry Snyder Company.

1                   •     **May 8, 2001:** Larry Snyder Company terminates its contract  
2     with Silverleaf for work on the Well No. 2 project citing billing  
3     disputes with Silverleaf.

4                   •     **November 2001:** Work begins on a new contract awarded to  
5     Construction Management Specialists (CMS) to complete the Well No.  
6     2 project. The project is completed July 17, 2002.

7           Q.     What is the estimated value of this recommended adjustment?

8           A.     This adjustment is estimated at \$186,373, as follows:

<b>Cost Increase Due to Switch from Lowest to 2<sup>nd</sup> Lowest Bidder</b>	<b>\$102,395</b>
<b>Loss in Value of Work Done by Low Bidder (LSC)</b>	<b>42,292</b>
<b>Excess Capitalized Interest During Delay Period</b>	<b>41,686</b>
<b>Recommended Disallowance</b>	<b>\$186,373</b>

9           Q.     Please explain the first item in the recommended disallowance, namely how  
10    switching from Larry Snyder & Company, as low bidder, to Construction Management  
11    Specialists, resulted in unnecessary cost increases.

12          A.     A document provided to Staff that lists the results of the bidding process for  
13    the Well No. 2 project shows LSC was the low bidder, at \$339,058, and Construction  
14    Management Specialists (CMS) was the second-lowest bidder at \$421,900. This initial  
15    difference in the bids, together with an apparent \$25,624 overbilling error by CMS,  
16    undetected by Silverleaf, accounts for most of the **\$102,395**. Having been awarded the  
17    contract, LSC became obligated to perform the work at the contract price, which, all else  
18    equal, would have resulted in cost savings of **\$102,395**, absent termination of the contract due  
19    to the above-listed, Silverleaf-imposed delays.

20          Q.     Please explain the next component of the Staff's recommended disallowance,  
21    the \$42,292 loss in value of the amount paid to LSC prior to then awarding the contract to the  
22    second lowest bidder, CMS.

1           A.     Silverleaf made general ledger charges from February 18, 1999 through  
2     December 31, 2001, totaling \$153,412, for payments made to LSC for this contract. A  
3     document provided to the Staff indicated that CMS offered, and Silverleaf accepted, a  
4     \$106,119.94 reduction of its original bid in credit for materials purchase by LSC, and also a  
5     credit of \$5,000 because LSC had already performed clearing and grading of the work site.  
6     Since LSC had been paid \$153,412 towards the contract amount, the credits of \$106,119.94  
7     and \$5,000 from CMS represent a loss of \$42,292 from terminating the original contract  
8     (\$153,412-\$106,119.94-\$5,000=\$42,292).

9           Q.     Did Silverleaf provide persuasive evidence to suggest that LSC was merely a  
10    troubled or unreliable firm that should bear responsibility for the contract termination?

11          A.     No, it did not. Nothing in the records provided to the Staff indicates that,  
12    without the two-year delay period imposed by Silverleaf (March 17, 1999 to April 1, 2001),  
13    LSC was not willing and able to fulfill its contractual obligations regarding the project. In  
14    fact, during roughly the same period LSC started and successfully completed another utility  
15    construction contract consisting of a project for a major expansion of the Water Supply and  
16    Distribution System (contract price: \$579,788) at one of Silverleaf's other Missouri  
17    properties, Timber Creek Resort. Also, LSC started and successfully completed for Silverleaf  
18    during this period another project of considerable scope, the Booster Pump Station (contract  
19    price: \$111,356) at Holiday Hills. In neither of these other two projects has anything come to  
20    Staff's attention that would cast doubt on LSC's competency or integrity as a building  
21    contractor. It is very clear that the disruption to the Well No. 2 construction project was due  
22    to Silverleaf's inadequate preparation before entering into the contract. The project was not  
23    ready for construction when Silverleaf entered into the contract with LSC, which was, by all

1 accounts, a competent builder with a proven track record of reliably delivering utility  
2 construction projects to Silverleaf.

3 Q. Please explain the third part of Staff's recommended disallowance of cost  
4 overruns in the construction of Well No. 2 at Holiday Hills.

5 A. It is customary to add to the cost of a construction project the interest paid on  
6 the money borrowed to pay for the progress of the work. The correct amount of interest is  
7 that which is due while the project is ongoing, ending when the project is complete. Though  
8 it was clearly not prepared to proceed with construction, Silverleaf awarded the project and  
9 paid LSC \$153,412 to move its operations on location and to begin to purchase building  
10 material and equipment. Then, as shown on the above timeline of events, Silverleaf imposed  
11 a series of delays on the builder for the next two years, before LSC terminated the contract  
12 and Silverleaf completed the work with the second-lowest original bidder, CMS. During this  
13 entire period, more specifically between September 1998 and July 2002, Silverleaf continued  
14 to charge to the project the interest on borrowed funds spent on project costs. Staff considers  
15 this a completely unreasonable approach since during most of this period there was no  
16 construction activity taking place because of the delays imposed by Silverleaf. The contract  
17 provided for six months to complete the work, but Staff recommends allowing up to eight  
18 months of capitalized interest to be charged to the cost of the project in acknowledgment of  
19 the realities of schedule slippage in construction projects.

20 Q. Is there anything further you would add to support Staff's recommendation to  
21 disallow the above-described construction cost overruns on the well No. 2 project at Holiday  
22 Hills?

1           A.     Yes. According to the Silverleaf records made available to Staff in response to  
2 its Data Request 29, in Case WC-2002-1040, Staff believes the construction cost overruns this  
3 project experienced were caused by delays that can be divided into three categories: 1) Those  
4 caused by Silverleaf not being prepared to enter into the construction contract, which led to  
5 the need to halt work and revise the design to coordinate with other work, past or future, at the  
6 resort. These factors account for the portion of the delay between March 17, 1999, and  
7 January 26, 2001. 2) Delays caused by a decision to reduce expenditures, owing to a serious  
8 deterioration of Silverleaf's financial condition. This decision accounts for the delay from  
9 January 26, 2001 Order to April 1, 2001. 3) Delays caused by the need, after termination of  
10 LSC's contract, to contract with another builder, CMS, for completion of the project. This  
11 delay extended into November 2001, when records indicate Silverleaf first made a payment to  
12 CMS for work on the Well No. 2 project.

13           Q.     What support do you have for asserting Silverleaf experienced a serious  
14 deterioration of its financial condition during this period that led it to delay work on the Well  
15 No. 2 project between January 26, 2001 and April 1, 2001?

16           A.     A Form 8-K Silverleaf filed April 2, 2001, with the federal Securities  
17 Exchange Commission (SEC) stated, in part, as follows:

18                   On February 27, 2001, Silverleaf Resorts, Inc. ("Company or  
19 Silverleaf") filed a Current Report on Form 8-K addressing liquidity  
20 and going concern issues. Specifically, the Company disclosed that  
21 negotiations for expansion and extension of certain credit facilities with  
22 a principal lender as well as negotiations with other financing sources  
23 has proven unsuccessful and that the Company did not then have  
24 sufficient financing in place to sustain its operations at existing levels.  
25 Consequently, the Company announced that it was reducing its sales  
26 and marketing operations in an attempt to conserve cash and downsize  
27 its business to a sustainable level...

28                   In connection with its planned downsizing, the Company has to date  
29 reduced the total number of its employees from approximately 2,653 to

1           2,118. The approximately 535 employees affected by this reduction in  
2           workforce were located at the Company's facilities in the states of  
3           Texas, Missouri, Georgia, Illinois and Massachusetts. Additionally, the  
4           Company has closed one of its five marketing centers, **slowed most**  
5           **new construction at its resorts**, and reduced general and  
6           administrative expenses in all departments. [emphasis added]

7           The contents of this SEC Form 8-K filing are merely a formal confirmation and  
8           explanation, in part, of the events, whose effects Staff had become aware of after reviewing  
9           the record of the well No. 2 construction project. Staff considers all of the above to be  
10          compelling evidence in support of its recommended disallowance of the cited construction  
11          cost overruns.

12          **Case No. WO-2005-0206**

13           Q.     Continuing, did Staff perform an update of rate base in sale Case No.  
14           WO-2005-0206, in which the Commission authorized the transfer of the Holiday Hills utility  
15           assets from Silverleaf to Algonquin?

16           A.     Yes, it did. In sale Case No. WO-2005-0206 the Staff Recommendation filed  
17           with the Commission contained an update, as of December 31, 2004, the rate base at  
18           Silverleaf's Missouri resorts. This was done to support Staff's opinion, based on the portion  
19           of the purchase price assigned to Silverleaf's Missouri utilities, that Algonquin would be  
20           acquiring these utility systems at a premium. Staff produced this update to rate base in the  
21           same way by starting with previously determined plant account balances at September 30,  
22           2002, and including any plant additions that Silverleaf could document.

23           Q.     Finally, please describe how you prepared Staff's update of rate base, at  
24           Holiday Hills, through the required September 30, 2006, date in this current Case No.  
25           WR-2006-0425.

1           A.     I requested that Algonquin provide general ledger data from the period where  
2 the sale case left off in December 31, 2004, as well as through the September 30, 2006, update  
3 ordered by the Commission. Staff compared the plant balances in Silverleaf's general ledger  
4 at the time of the close of the sale case in August 2005. Staff also requested from Algonquin  
5 invoices supporting any additions to plant made throughout this period either by Silverleaf  
6 prior to the sale or by Algonquin since its purchase. With this information, it was possible to  
7 update the Staff's calculation of rate base by beginning with plant and depreciation reserve  
8 balances determined previously by Staff for December 31, 2004, in sale Case No. WO-2005-  
9 0206.

10          Q.     Please summarize Staff's approach to determining Algonquin's September 30,  
11 2006, investment in rate base at Holiday Hills.

12          A.     Rate base has been calculated beginning with the original cost of plant paid  
13 when first put into operation providing utility service. Staff reviewed any additional  
14 investment made in utility plant, first by Silverleaf and later by Algonquin, and updated  
15 depreciation reserve computed at Commission-prescribed rates. Staff has followed the  
16 requirements of the tariffs in determining what plant was required to be contributed by the  
17 developer, assigning zero rate base value to such plant, and ensuring that rate base under  
18 Silverleaf's ownership was transferred at unchanged value to Algonquin, irrespective of the  
19 price Algonquin may have paid for the underlying plant assets.

20       **EXCESS PLANT CAPACITY COSTS**

21          Q.     Please explain the purpose of this adjustment.

22          A.     This adjustment re-classifies a portion of Algonquin's water systems from plant  
23 in service to plant held for future use. This adjustment is necessary due to a Staff finding of

Direct Testimony of  
Graham A. Vesely

1 substantial excess capacity in Algonquin's water systems. Staff witness Merciel of the  
2 Commission's Water and Sewer Department supplied information to me to calculate the  
3 removal of this excess capacity. Mr. Merciel identifies the reason for this adjustment in his  
4 direct testimony. I have taken his recommended percentages and determine the dollar value  
5 of net plant affected, in order to remove these amounts from plant in service balances.

6 Q. Does this conclude your testimony?

7 A. Yes, it does.

**GRAHAM A. VESELY**

**CASE PARTICIPATION**

<b>Date Filed</b>	<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
5/13/1999	Maintenance Expense Normalization	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense Normalization	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense	GR99246	Direct	St. Joseph Light & Power Company
5/13/1999	Normalization	GR99246	Direct	St. Joseph Light & Power Company
3/1/2000	Pension Asset Transfer	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
4/19/2001	Payroll	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Payroll Taxes	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Cash Working Capital	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Bonuses	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Payroll Taxes	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll Taxes	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service

Date Filed	Issue	Case Number	Exhibit	Case Name
12/6/2001	Employee Benefits	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	ER2001672	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public
8/16/2002	Fuel Inventory	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Fuel and Purchase Power	ER2002424	Direct	The Empire District Electric Company
10/16/2002	Fuel and Purchase Power Expense	ER2002424	Surrebuttal	The Empire District Electric Company
12/9/2003	Fuel and Purchase Power Expense	ER20040034	Direct	Aquila, Inc.
1/26/2004	Fuel and Purchase Power Expense	ER20040034	Rebuttal	Aquila, Inc.
2/4/2004	Fuel and Purchase Power Expense	ER20040034	Surrebuttal	Aquila, Inc.
10/14/2005	Overview of Electric Generation; Fuel and Purchased Power Expense; Fuel Prices; Demand Charges-Fuel Inventories; Transmission Expense; Pipeline Reservation Charge; and Emission Allowances	ER20050436	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P - Electric
12/13/2005	Coal Prices; Fuel Oil Prices; SO2 Emissions	ER20050436	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P – Electric
2006	Kansas City Power and Light Company	ER20060314		Corporate Project Costs, SO2 Emissions Allowances, Injuries and Damages Expense, Advertising Expense

#### INFORMAL CASES

Raytown Water Company  
 Timbercreek Sewer Company  
 Silverleaf Resorts  
 Taney County Utilities  
 Stockton Hills

HHR

Schedule 2A

Company  
9/30/2005 Account Numbers

311																	
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Adjust Step 4  
Excess Plant  
Capacity Not  
Necessary to  
Plant, Held for  
Future Use  
31.6% well no.1  
73% Storage

Case No. WR-2006-0425  
 Algonquin Water Resources of Missouri  
 Graham Vesely, MPSC

OMR-w Schedule 2B

Company	311	314	321	325	332	343	345	346	391
9/30/2005	-	9,728		800	1,666	248,005	5,086	7,204	5,920
Test Year End									\$ 278,409

Staff	9/30/2005	Account Numbers	311	314	321	325	332	342	343	345	346	391
Adjust Step 1 to agree w/Staff test year end	-	45,273	549	20,534	2,361	45,601	149,664	-	7,905	-	-	\$ 271,887
	-	35,545	549	19,734	695	45,601	(98,341)	(5,086)	701	(5,920)		\$ (6,522) Step 1
												278,409
												\$ 271,887

Staff	9/30/2006	Account Numbers	637	45,273	32,960	21,659	2,361	51,331	149,664	-	24,655	61
Adjust Step 2 9/30/06 update	637	-	32,411	1,125	-	5,730	-	-	16,750	61		\$ 328,601
												\$ 56,714 Step 2
												271,887
												\$ 328,601

Adjust Step 3  
 Excess Plant Capacity  
 Reclassify to Plant Held for Future Use  
 67.90%

\$ (12,296) Step 3

Case No. WR-2006-0425  
 Algonquin Water Resources of Missouri  
 Graham Vesely, MPSC

OMR-s		Schedule 2C											
		Account Numbers											
Company	9/30/2005	303	311	352.1	352.2	354	355	362	363	373	375	376	391
Test Year End	33,950	9,950	1,880	109,481	3,154	-	-	-	20,429	101,203	-	2,971	- \$ 283,018
Staff	9/30/2005	303	311	352.1	352.2	354	355	362	363	373	375	376	391
Adjust Step 1 to agree w/Staff test year end		0	-	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	-	5,257 \$ 344,146
		(33,950)	(9,950)	1,396	22,720	3,205	2,909	3,495	86,164	(21,039)	3,892	(2,971)	5,257 \$ 61,128 Step 1
													<u>283,018</u>
													<u>\$ 344,146</u>
Staff	9/30/2006	-	-	3,276	137,814	6,359	2,909	10,661	107,030	83,419	3,892	-	7,012 \$ 362,372
Adjust Step 2 9/30/06 update		-	-	-	5,613	-	-	7,166	437	3,255	-	-	1,755 \$ 18,226 Step 2
													<u>344,146</u>
													<u>\$ 362,372</u>

TCR-w

Schedule 2D

Company	311	314	321	326	328	332	342	343	345	346	347	348	
Test Year End	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	
	106,801	86,523	216,796	-	15,227	197,487	234,215	32,832	25,394	44,841	18,406	\$ 979,522	
Start	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	
	138,676	96,341	158,626	54,607	15,556	271,384	268,363	0	0	0	0	\$ 994,559	
Adjust Step 1 to agree w/Staff test year end	31,875	(192)	(58,170)	54,607	329	73,897	35,154	(32,832)	(25,394)	(44,841)	(19,406)	\$ 15,037 Step 1	
												979,522	
												894,559	
Staff	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	9/30/2006	
Adjust Step 2	138,676	97,905	158,626	54,607	15,556	271,384	268,363	0	1691	0	0	\$ 1,021,818	
9/30/2006 update	1349	0	11,564	0	0	0	520	0	1691	0	0	\$ 27,259 Step 2	
												994,559	
												\$ 1,021,818	
Adjust Step 3 to agree w/Staff test year end	(89,550)					(170,972)						\$ (260,522) Step 3	
Final Plant Capacity Necessity to Plant Held for Future Use well 73.6% storage 72%													

TCR's

Schedule 2E

Account Numbers		311	352.2	354	362	363	373	374	381	383	
Company	301 303										
Test Year End	93 13.915	302,985	157,403	3,797	45,984	16,683	339,504	10,340			\$ 893,384
Staff	9/30/2005	0	0	62207	201822		91304	403433	15772	930	\$ 775,468
Adjust Step 1 to agree w/Staff test year end	(93) (13.915)	(24,0778)	44,419	(3,797)	(45,984)	72,021	63,529	5,432		930	\$ (117,916) Step 1 833,384 \$ 775,468
Staff	8/20/2006	0	0	63182	206322	0	95525	404419	15172	930	\$ 786,512
Adjust Step 2 9/30/06 update	0	0	955	4530	0	0	4221	988	0	382	0
											\$ 11,044 Step 2 775,468 \$ 786,512



## Schedule 3A

HHR

	Account Numbers	311	314	316	321	326	332	341	342	343	345	346	348	381	394
Accumulated reserve 11/1/04															
Plant Investment 12/31/04															
2004 Additions (Retirements)	(485)	22,537	316	316	14,313	93,711	3,889	580	49,428	118,715	358	2,550	2,382	23,889	332,083
2004 Depreciable base-Beg. Plant+1/2 additions for year	2,887	107,225	6,028	135,032	209,920	209,920	17,142	8,836	299,646	586,136	1,783	16,923	9,878	17,524	1,418,771
Depreciation rate										8,357		611	1,440	201	8,609
Depreciation expense for 2004	2,887	107,225	6,028	135,032	209,920	209,920	17,142	8,836	299,646	586,136	1,783	17,229	10,399	17,625	
Deduction from reserve for retirements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Accumulated reserve 12/31/04	72	2,145	121	3,376	20,992	487	487	221	7,481	11,788	52	1,723	260	2,520	
Plant Investment 1/1/05	(422)	24,981	437	17,888	114,703	4,186	4,186	801	56,820	130,502	410	4,273	2,621	26,210	383,319
9/30/2005 Additions (Retirements)															
2005 Depreciable base-Beg. Plant+1/2 additions for year	2,887	107,225	6,028	135,032	209,920	209,920	17,142	8,836	299,646	582,093	1,783	17,534	11,119	17,725	1,427,380
Depreciation rate										423		1,600			6,612
Depreciation expense for 9/30/2005	2,887	107,225	6,028	135,032	211,068	211,068	17,389	8,836	300,446	592,705	1,793	18,434	11,119	17,725	
Deduction from reserve for retirements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Accumulated reserve 9/30/2005	54	1,608	90	2,532	15,829	378	378	166	5,633	6,891	38	1,383	208	1,801	
Plant Investment 10/01/2005	(388)	28,580	527	20,220	130,533	4,574	4,574	967	62,653	139,392	449	5,655	2,830	28,111	422,032
2006 Additions (Retirements)															
2006 Depreciable base-Beg. Plant+1/2 additions for year	2,887	107,225	6,028	135,032	212,196	212,196	17,655	8,836	301,246	592,918	1,783	19,304	11,119	17,725	1,433,992
Depreciation rate	4,789			28,457	38,462	38,462	455	8,836	912	11,833	90	25,177		2,863	416
Depreciation expense thru 9/30/2006	5,272	107,225	6,028	149,761	231,427	231,427	17,883	8,836	301,702	598,833	1,838	31,923	11,119	19,207	114,534
Deduction from reserve for retirements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Accumulated reserve 10/30/06	132	2,145	121	3,744	23,143	518	518	221	7,543	11,977	53	3,192	278	2,747	21
Plant Investment 9/30/06	(237)	28,734	448	23,964	153,876	5,093	5,093	1,188	70,096	151,369	502	6,847	3,108	30,857	477,865
	7,656	107,235	6,038	184,489	250,858	16,110	16,110	8,836	302,158	604,749	1,883	44,511	11,119	20,688	1,548,526

## Schedule 38

## OMR-Water

	311	314	321	325	332	342	343	346	391.1
Accumulated reserve 1/1/04	0	18,103		38,036	1,311	21,451	21,661	7,912	- 108,474
Plant Investment 1/1/04	0	45,273		19,756	2,361	45,601	149,664	7,905	- 270,560
2004 Additions (Retirements)	0								-
2004 Depreciable base=Beg. Plant+1/2 additions for year	0	45,273		19,756	2,361	45,601	149,664	7,905	-
Depreciation rate	0	0.02		0.1	0.029	0.025	0.02	0.1	0.143
Depreciation expense for 2004	0	905		1,976	68	1,140	2,993	791	-
Deduction from reserve for retirements									
Accumulated reserve 12/31/04	0	19,008		40,012	1,379	22,591	24,654	8,703	- 116,347
Plant Investment 1/1/05	0	45,273		19,756	2,361	45,601	149,664	7,905	- 270,560
9/30/2005 Additions (Retirements)	0		549	778	-	-	-	-	1327
9/30/2005 Depreciable base=Beg. Plant+1/2 additions for year	0	45,273	275	20,145	2,361	45,601	149,664	7,905	-
Depreciation rate	0	0.02	0.025	0.1	0.029	0.025	0.02	0.1	0.143
Depreciation expense for 2005	0	679	5	1,511	51	855	2,245	593	-
Deduction from reserve for retirements									
Accumulated reserve 9/30/2005	0	19,688	5	41,522	1,431	23,446	26,899	9,295	- 122,287
Plant Investment 10/01/2005	0	45,273	549	20,534	2,361	45,601	149,664	7,905	- 271,887
9/30/2006 Additions (Retirements)	637	-	32,411	1,125	-	5,730	-	16,750	61 56,714
2006 Depreciable base=Beg. Plant+1/2 additions for year	319	45,273	16,755	21,097	2,361	48,466	149,664	16,280	31
Depreciation rate	0.025	0.02	0.025	0.1	0.029	0.025	0.02	0.1	0.143
Depreciation expense thru 9/30/2006	8	905	419	2,110	68	1,212	2,993	1,628	4
Deduction from reserve for retirements	0								
Accumulated reserve 9/30/06	8	20,593	424	43,632	1,499	24,658	29,893	10,923	4 131,634
Plant Investment 9/30/06	537	45,273	32,960	21,859	2,361	51,331	149,664	24,655	61 328,601

## Schedule 3C

## DMR-Sewer

Accumulated reserve 1/1/04	352.1	352.2	354	355	362	363	373	375	391	
	1,383	28,276	1,774		2,485	52,419	44,318	2,129	920	173,704
Plant Investment 1/1/04	3,276	132,201	6,359		3,495	105,972	50,798	3,892	5,257	311,250
2004 Additions (Retirements)							17,952			17,952
2004 Depreciable base= Beg. Plant+ 1/2 additions for year	3,276	132,201	6,359		3,495	105,972	59,774	3,892	5,257	
Depreciation rate	0.02	0.02	0.02		0.05	0.1	0.045	0.045	0	
Depreciation expense for 2004	66	2,644	127		175	10,597	2,690	175	752	
Deduction from reserve for retirements										
Accumulated reserve 12/31/04	1,449	30,920	1,901	-	2,660	103,016	47,008	2,304	1,672	190,929
Plant Investment 1/1/05	3,276	132,201	6,359		3,495	105,972	68,750	3,892	5,257	329,202
9/30/2005 Additions (Retirements)				2,909		621	11,414			14,944
9/30/2005 Depreciable base= Beg. Plant+ 1/2 additions for y	3,276	132,201	6,359	1,455	3,495	106,283	74,457	3,892	5,257	
Depreciation rate	0.02	0.02	0.02	0.033	0.05	0.1	0.045	0.045	0.143	
Depreciation expense for 2005	49	1,983	95	36	131	7,971	2,513	131	564	
Deduction from reserve for retirements										
Accumulated reserve 9/30/2005	1,498	32,903	1,997	36	2,791	110,987	49,521	2,435	2,236	204,403
Plant Investment 10/01/2005	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	5,257	344,146
9/30/2006 Additions (Retirements)		5613			7166	437	3255		1755	18,226
2006 Depreciable base= Beg. Plant+ 1/2 additions for year	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	5,257	
Depreciation rate	0.02	0.02	0.02	0.03	0.05	0.10	0.05	0.05	0.14	
Depreciation expense thru 10/30/2006	66	2,644	127	96	175	10,659	3,607	175	752	
Deduction from reserve for retirements										
Accumulated reserve 9/30/06	1,563	35,547	2,124	132	2,966	121,647	53,128	2,611	2,987	222,704
Plant Investment 9/30/06	3,276	137,814	6,359	2,909	10,661	107,030	83,419	3,892	7,012	362,372

## Schedule 3D

TCRW

	Account Numbers									
	311	314	321	325	328	332	342	343	346	
Beginning Plant Investment 1/01/04	-	138,676	86,341	158,626	54,607	15,556	271,384	267,744	-	992,933
Additions	-	-	-	-	-	-	-	-	-	1,625
Ending Plant Investment	-	138,676	86,341	158,626	54,607	15,556	271,384	1,625	-	-
Deprec. base= Beg. Plant + 1/2 add's for year	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	-
Depreciation rate	-	0	0	0	0	0	0	268,557	-	-
Depreciation expense	-	2,774	2,159	15,863	5,461	451	6,785	5,371	-	-
Deduction from Reserve for retirements	-	-	-	-	-	-	-	-	-	-
Accumulated reserve 12/31/04	-	9,707	7,555	55,519	-	1,579	23,745	18,758	-	116,865
Beginning Plant Investment 1/01/05	-	-	-	-	-	-	-	-	-	-
9/30/2005 Additions	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	994,558
9/30/2005 Ending Plant Investment	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	-
Deprec. base= Beg. Plant + 1/2 add's for year	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	-
Depreciation rate	-	0	0	0	0	0	0	0	0	-
Depreciation expense	-	2,080	1,519	11,897	4,096	338	5,088	4,041	-	-
Deduction from Reserve for retirements	-	-	-	-	-	-	-	-	-	-
Accumulated reserve 9/30/2005	-	11,787	9,174	67,416	4,096	1,917	28,835	22,799	-	146,023
Beginning Plant Investment 10/01/2005	-	-	-	-	-	-	-	-	-	-
9/30/2005 Additions	13,484	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	994,558
Ending Plant Investment 9/30/06	13,484	138,676	11,564	158,626	54,607	15,556	271,384	520	1,691	27,259
Deprec. base= Beg. Plant + 1/2 add's for year	6,742	138,676	97,905	158,626	54,607	15,556	271,384	269,889	1,691	1,021,817
Depreciation rate	0	0	92,123	158,626	54,607	15,556	271,384	269,629	846	-
Depreciation expense	169	2,774	2,303	15,863	5,461	451	6,785	5,393	0	-
Deduction from Reserve for retirements	-	-	-	-	-	-	-	-	85	-
Accumulated reserve 9/30/05	169	14,551	11,477	83,279	9,556	2,368	35,619	28,191	85	185,305

## Schedule 3E

## TCRS

	Account Numbers									
	311	352.2	363	373	374	391	393			
Beginning Plant Investment 1/01/04	62,207	122,104	86,838	402,192	15,772	-	-		689,113	
Additions			1,536						1,536	
Ending Plant Investment	62,207	122,104	88,374	402,192	15,772	-	-			
Deprec. base= Beg. Plant + 1/2 add's for year	62,207	122,104	87,606	402,192	15,772	-	-			
Depreciation rate	0	0	0	0	0	0	0			
Depreciation expense	1,866	2,442	8,761	18,099	710	-	-			
Deduction from Reserve for retirements										
Accumulated reserve 12/31/04	6,476	8,498	30,470	63,345	2,484	-	-		111,274	
Beginning Plant Investment 1/01/05	62,207	122,104	88,374	402,192	15,772	-	-		690,649	
9/30/2005 Additions		79,718	2,930	1,241					930	84,819
9/30/2005 Ending Plant Investment	62,207	201,822	91,304	403,433	15,772	-	930			
Deprec. base= Beg. Plant + 1/2 add's for year	62,207	161,963	89,839	402,812	15,772	-	465			
Depreciation rate	0	0	0	0	0	0	0			
Depreciation expense	1,400	2,429	6,738	13,595	532	-	35			
Deduction from Reserve for retirements										
Accumulated reserve 9/30/2005	7,875	10,928	37,208	76,940	3,016	-	35		136,003	
Beginning Plant Investment 10/01/2005	62,207	201,822	91,304	403,433	15,772	-	930		775,468	
9/30/2006 Additions	955	4,500	4,221	986		382			11,044	
9/30/2006 Ending Plant Investment	63,162	206,322	95,525	404,419	15,772	382	930		786,512	
Deprec. base= Beg. Plant + 1/2 add's for year	62,684	204,072	93,415	403,926	15,772	191	930			
Depreciation rate	0	0	0	0	0	0	0			
Depreciation expense	1,881	4,081	9,341	18,177	710	19	93			
Deduction from Reserve for retirements										
Accumulated reserve 9/30/06	9,756	15,009	46,550	95,117	3,726	19	128		170,305	

Schedule 3F

HHR	Account	343	345 Total
		640,749	1,883 642,632
Reserve		151,369	502 151,871
			<u>490,761</u>
Booster Station			94,018
Net Deduct from Rate Base			<u>\$ 584,779</u>

OMRW	Account
	343
	149664
Reserve	29893
Net Deduct from Rate Base	<u>\$ 119,771</u>

OMRS	Account	352.1	352.2	354 Total
		3,276	137,814	6,359 147,449
Reserve		1,563	35,547	2,124 39,234
Net Deduct from Rate Base				<u>\$ 108,215</u>

TCRW	Account
	343
	269,889
Reserve	28,191
Net Deduct from Rate Base	<u>\$ 241,698</u>

TCRS	Account
	352.2
	206,322
Reserve	15,009
Net Deduct from Rate Base	<u>\$ 191,313</u>

## Schedule 3G

Holiday Hills

Source: DR 28

Item	Total Cost	Cost by Account (water)			
		321	325	342	
Bulldog Steel Products	7,500			7,500	7,500
Wasteline Engineering	10,800				-
Bulldog Steel Products	7,500			7,500	7,500
Bulldog Steel Products	938	938			938
Wasteline Engineering	1,900	321			321
Coffman Construction	10,125	10,125			10,125
Larry Snyder Construction	111,356	62,258	37,807	11,291	111,356
Larry Snyder Construction	2,200	2,200			2,200
	<u>\$ 152,319</u>	<u>75,842</u>	<u>37,807</u>	<u>26,291</u>	<u>\$ 139,940</u>

Note: This project was placed in service in 1999

Depreciation Rates	0.025	0.1	0.025	
In service date is July 1, 1999				
Months in service thru 9/30/2006:	87	87	87	
Accumulated Reserve:	13,746	27,410	4,765	
Net Plant Value	62,096	10,397	21,526	\$ 94,018
				Rate Base Offset
Annualized Depreciation Expense:	1,896	3,781	657	\$ 6,334
				Deduct from Deprec.
				(Amort of CIAC)

**SCHEDULE 4 HAS BEEN DEEMED HIGHLY CONFIDENTIAL  
IN ITS ENTIRETY**

SCHEDULE 5 HAS BEEN DEEMED HIGHLY CONFIDENTIAL  
IN ITS ENTIRETY

SCHEDULE 6 HAS BEEN DEEMED HIGHLY CONFIDENTIAL  
IN ITS ENTIRETY

SCHEDULE 7 HAS BEEN DEEMED HIGHLY CONFIDENTIAL  
IN ITS ENTIRETY